FINANCIAL DIGEST

MANUFACTURERS HANOVER TRUST

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THE NUMBERS ARE MISLEADING

The statistics that depict a strengthening economy in the third quarter should not be considered a harbinger of things to come during the current quarter. In some cases, they represent makeup sales and output from the extremely depressed levels of the previous quarter, while in others, they portray events as they occurred before the Federal Reserve's recent credit tightening moves.

Take the gross national product figures, for example. After adjusting for inflation, the GNP rose in the third quarter, following a significant decline in the second. However, a lot of this increase traced to makeup sales of autos and other consumer durables in the wake of the difficulty most people had getting gasoline earlier in the year. Retail sales rose nearly one per cent last quarter, after slipping close to three per cent in the second. In particular, the annual selling rate of new domestic automobiles rose 7½ per cent to 8.6 million units in the third quarter, from the second quarter's 8 million unit clip.

One indication of what may lie ahead is the trend in auto sales late last month and early October. Still preceding, for the most part, the Fed's tightening of the credit reins, auto sales slipped to a 7.4 million unit pace in the last ten days of September. In the first ten days of October new-car volume fell to a 5.8 million unit rate—the lowest for any ten-day selling period since the dark days of early January, 1975.

An example of a statistic that was out of date before it was released is the one dealing with housing starts. The Commerce Department's report that new-home starts jumped four per cent last month clearly should be taken with a grain of salt, considering what the Fed's moves have done to interest rates and credit availability since then. The president of the National Association of Homebuilders thinks housing starts will plunge more than 40 per cent, to below one million units by early 1980. Whether or not this is an overly pessimistic forecast, the facts remain that in 24 states, usury ceilings keep the rate on home mortgages to 12 per cent or less—well below the free-market rate of 13-14 per cent. Plainly, the supply of mortgage money will dry up in those states.

PLENTY OF INFLATION LEFT

Houses, cars, and other big-ticket consumer durables that depend heavily on credit are likely to suffer sluggish sales over the next few months. Their outlook won't brighten until the Fed injects more credit into the economy—or until their prices are cut. If and when this happens, the consumer will be in a good position to take advantage of these off-price sales, since employment is still at a record and use of credit relative to incomes is down. Indeed, delinquency rates on consumer credit have yet to rise the way they usually do in a recession.

Needless to say, enough price cuts would make a dent in the inflation rate, now running 13 per cent on the consumer price index basis. This could not happen a moment too soon. After remaining quiescent for about six months, the Bureau of Labor Statistics' weekly index of industrial materials' prices shot up in the last two weeks, to new record levels. At 307 (1967 = 100), prices of these key industrial commodities jumped nearly four per cent between late September and mid-October. By contrast, these prices in the aggregate went up only 0.3 per cent from late March to the end of last month.

To be sure, some of these increases might have reflected the speculation that was spreading to the various commodities markets late last month—which subsequently subsided after the Fed's credit tightening moves. However, even if some materials' prices do go down, price pressures may still remain, since oil appears to be headed upward once again.

SELECTED FEDERAL RESERVE DATA

(Weekly Averages of Daily Figures—Millions of Dollars)

Week Ending 10/17/79

		Change Since Week Ago	Change Since Year Ago
Reserve Bank Credit:			
U.S. Gov'ts and Agencies Owned Outright & RPs	121,422	+ 381	— 1,119
Member Bank Borrowings	1,530	+ 592	+ 280
Float	7,883	+1,262	+ 260
Total Reserve Bank Credit	135,424	+2,413	+ 1,150
Treasury Deposits with Federal Reserve Banks	2,987	+ 104	—12,144
Currency Outside Banks	109,578	+ 781	+ 9,819
Member Bank Reserves:			
Required	42,597	+1,878	+ 3,722
Excess (Deficiency)	—7	— 601	+ 112
Total Reserves Held	42,590	+1,277	+ 3,834
Net Free Reserves	1,386	+1,181	+ 236
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	83,696	—1,601	— 3,783

r Revised

	10/10/79		
Money Supply ($ Bil., SA) M1	383.2	+ 2.8	+5.1%
Money Supply ($ Bil., SA) M2	941.9	+ 4.5	+7.8%

NEW YORK MONEY MARKET

Offering Rates 10/19/79

	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.25%	12.10%	11.60%
*Federal Agencies	12.80	13.00	12.50
*Project Notes—Tax Free (46% Taxable Equivalent)	11.00	11.57	12.03
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market—Prime	14.25	14.25	

‡Finance Company Paper—Prime		‡*Bankers' Acceptances	
5- 14 days	12.00%	Nov.	13.20%
15- 29 days	13.00	Dec.	13.20
30- 59 days	13.25	Jan.	13.35
60-179 days	12.25	Feb.	13.35
180-270 days	11.50	Mar.	13.15
		Apr.	13.15
†Industrial Paper—Prime			
30- 89 days	13.13	†Federal Funds Effective Rate	15.00%
90-120 days	13.38		

‡Discount Basis *Subject to Availability †Estimated

SELECTED BUSINESS INDICATORS

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'79n	$ 2,392	$ 2,330	$ 2,160
Gross National Product (1972 Dollars)*	3rd Q'79n	$ 1,431	$ 1,422	$ 1,407
Percent Change, Annual Rate	3rd Q'79n	2.4%	—2.3%	2.6%
Change in Consumer Prices (all urban consumers)*	Aug. '79	13.2%	12.0%	7.2%
Change in Producer Prices*	Sept. '79	16.8%	14.4%	9.6%
Civilian Employment (Thousands of Persons)†	Sept. '79	97,513	96,900	95,010
Unemployment as % of Civilian Labor Force†	Sept. '79	5.8%	6.0%	5.9%
Personal Income*:	Sept. '79n	$ 1,955	$ 1,943	$ 1,756
Leading Indicators Composite Index (1967=100)†	Aug. '79	139.1	139.1	142.0
Industrial Production Index (1967=100)†	Sept. '79n	152.3	151.5	148.6
Net Change in Consumer Instalment Credit†	Aug. '79	$ 2.45	$ 2.44	$ 3.63
U.S. Merchandise Trade Balance†	Aug. '79	—$ 2.36	—$ 1.11	—$ 1.84
Plant and Equipment Expenditures*	4th Q'79	$179.56(a)	$174.74(a)	$163.96
Private Housing Starts (Thousands of Units)*	Sept. '79n	1,881	1,806	1,948
New Construction Expenditures*	Aug. '79	$ 229.2	$ 232.7	$ 210.9
Total Business Inventories†	Aug. '79n	$ 417.2	$ 413.8	$ 366.6
Total Business Sales†	Aug. '79n	$ 292.7	$ 288.6	$ 259.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n Newly reported figure. a Anticipated

SHORT TERM PAPER OUTSTANDING

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CDs Weekly Reporting Banks			
Nationwide (10/10/79)	88,824	+ 466	+ 2,110
New York City (10/17/79)	18,609	+ 43	— 6,554
Commercial Paper (10/10/79)	107,024	+ 751	+30,078

BANK LOANS

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/10/79)	153,800	408	+24,877
New York City (10/17/79)	44,918	658	+ 7,544

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/10/79)	389,510	497	+62,835
New York City (10/17/79)	89,167	85	+13,255

SECURITY MARKETS

	Friday 10/19/79	Change Since Week Ago	Change Since Year Ago
U. S. Governments, Closing Bid Prices:			
90-Day Bills (Discount Basis)	12.55%	+ 1.20	+ 4.61
180-Day Bills (Discount Basis)	12.45	+ 1.07	+ 3.89
Longest Bills (Discount Basis)	11.85	+ .65	+ 3.16
10⅛s 9/30/81	96.13	—1 19/32	
9¾s 9/30/83	95.1	—2 17/32	
9¼s 5/15/89	91.9	—3 2/32	
10¼s 11/15/94	97.28	N.A.	
9⅛s 5/15/09	90.31	—2 29/32	
Municipals:			
Bond Buyer—20 Bond Index (10/19/79)	7.18%	+ .06	+ .97
Blue List Total ($ Million)	$ 619	—$ 191	—$ 210
30-Day Visible Supply ($ Million)	$1,995	—$ 578	+$ 258
Total	$2,614	—$ 769	+$ 48
Corporates:			
Moody's Aa Composite (10/19/79)	10.47%	+ .23	+ 1.31
Money Mgr.—30 Day Supply ($ Million)	$1,689	+$ 163	+$ 576
Stocks:			
Dow-Jones Averages			
Industrials	814.68	— 24.31	+ 8.63
Transportation	231.20	— 11.69	+ 18.94
Utilities	101.15	— 2.27	+ 2.23
65 Stocks	283.90	— 9.72	+ 9.23
Standard and Poor's 500 Stocks	101.60	— 2.89	— 7.01
N.Y.S.E. Composite Index	57.77	— 1.73	+ 5.25
N.Y.S.E. Avg. Daily Vol. for Week (000's)	32,580	—18,162	— 1,070

*46% Taxable Equivalent 13.30%

INTERNATIONAL RATES

	Friday 10/19/79	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	13.25%	14.13%
1 month	14.00	14.75
3 months	14.75	14.94
6 months	14.75	14.88
1 year	13.75	13.94
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.55%	11.50%
Long Term (10 to 15 yrs.)	11.50	11.30
FOREIGN EXCHANGE SPOT RATES New York Opening (in dollars)		
Belgium	.03450	.03342
Canada	.8463	.8512
France	.2369	.2371
Germany	.5564	.5558
Italy	.001206	.001202
Japan	.004326	.004397
Mexico	.04380	.04380
Netherlands	.5020	.5040
Switzerland	.6094	.6148
U.K.	2.1510	2.1555

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For more information, contact Ronald R. Pabian in the National Division at (212) 350-4107 or Herbert V. Fink in the Operations Division at (212) 623-3506.

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